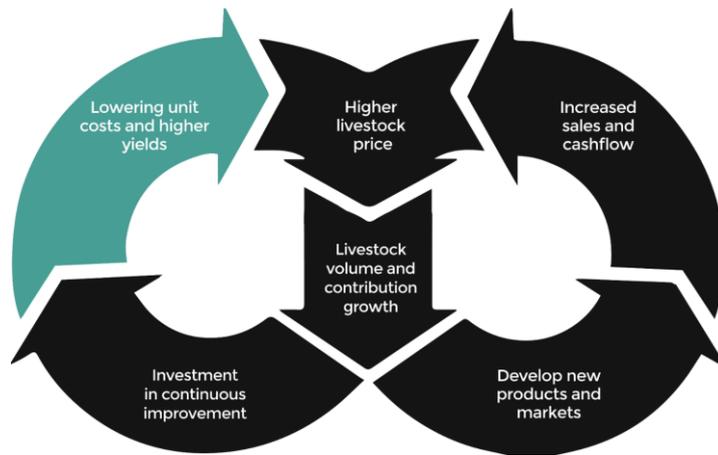




**Alliance Group marketing update**

Alliance Group's business strategy is underpinned by two 'virtuous loops' based around maximising operational efficiency and capturing more market value.



The first loop aims to ensure the co-operative is 'match-fit' and we've already made great strides in lowering our costs, increasing operational efficiency and improving yields. We're now increasing activity on our second loop to become much more market informed and focussed.

This means understanding consumer segments globally much better, strongly differentiating our products in the market, developing new products and markets and ultimately increasing profitability for the benefit of our farmer-shareholders.



**Developing premium brands**

Our team, led by General Manager Marketing Peter Russell, has put a huge amount of work into the development of our new marketing strategy.

The future for New Zealand red meat is differentiation so a key priority is the development of a portfolio of premium brands and strengthening Pure South by looking at exactly what consumers want market by market. Our premium portfolio will be an expression of the unique land and environment the products come from.

In the future, we will be creating a range of premium grade market offers with defined attributes that will provide access for all farmers. TE MANA LAMB is just the first of our brands we're launching as part of this programme. It's an exciting vision of the future and one where New Zealand red meat firmly and unambiguously establishes itself as the finest in the world.

A key avenue to launch premium brands is via the food services sector where we can capture real value and establish our premium brands credentials. We're working hard to enthuse chefs, engage foodies and opinion leaders and build association with exclusivity, achieving premium products status.

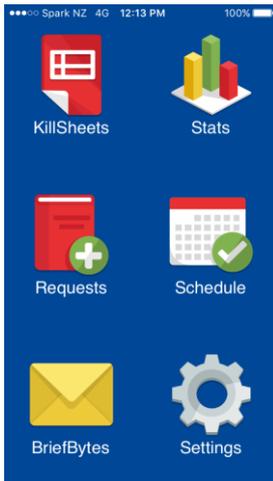
That's already occurring successfully in New Zealand and in Hong Kong with TE MANA LAMB and the roll-on benefits of this, for all our shareholders, is that it will open doors for other Pure South products and build our credibility as specialist suppliers in that space.

Companies like Zespri and Fonterra have successfully made the leap from commodity to a premium branded space – that is our goal. It isn't easy to unpick a long-standing perception and put it back together to form a new brand, to move from being a large undifferentiated machine to one of niche, specialisation and differentiation.

However, that is the essential next step in our journey - to change the nature of our business, from processor to food company with a strong, healthy, hierarchical consumer-facing brand portfolio with a raft of value added products that we have developed and that we own.

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## ***Farm Alliance app***



We have recently upgraded the Farm Alliance app to make it more farmer-friendly, so if you haven't yet downloaded it, I encourage you to do so.

The Farm Alliance app has been developed to provide farmers with fast and accurate access to information about their livestock processing. It provides a range of resources including kill sheet summaries, the latest schedules, monthly or annual kill statistics and Brief Bytes. You can also use the app to send messages to your livestock rep.

Once livestock has been processed, notifications are sent advising that the kill sheet is available.

You can download the app free of charge by searching for "Farm Alliance" in either the Apple App Store or Google Play Store.

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## ***Lorneville upgrade now underway***

Our largest plant, Lorneville near Invercargill, is now closed for the season and we are carrying out a major upgrade of the Engine Room in the refrigeration area. The \$3.5 million Engine Room project will improve the safety of the engine room operation, upgrade equipment, ensure compliance with regulations, improve our ability to control our refrigeration system and provide a platform for future investment and automation. It is estimated the project will result in significant savings. Work is also underway on upgrading the chillers at Lorneville to improve efficiencies as part of the plant's Manufacturing Excellence Programme. The improvements are expected to create almost \$4 million in additional value for farmer shareholders.

This investment is great news for southern farmers and all shareholders. It also reflects our commitment to improving our operational performance and lifting farmer returns.

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## ***Congratulations to Hemoata***

Congratulations to Hemoata Kopa, 21, of Ngāpuhi (Matawaia), who was one of three finalists in the Ahuwhenua Young Māori Farmer Award (AYMF). She works as a General Shepherd at Alliance Group supplier Pukemiro Station, just out of Dannevirke.

Hemoata, who along with Anna Murphy and BJ Cross attended our Women's Workshop event in Dannevirke recently, grew up at Matawaia in Northland and got her first taste of farming helping her grandfather on his small block, where he ran about 100 cows.



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## ***Tesco visit***

We are looking forward to hosting Hannah Donegan, Agricultural Manager for UK supermarket chain Tesco, from 13th-16th June. Hannah will visit sheep and deer farms in North Otago and South Canterbury and plans to tour our Pukeuri plant in Oamaru and Smithfield in Timaru.

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## ***2017 Women's Workshops***



Our Women's Workshops have now been completed for 2017 and we thoroughly enjoyed meeting farmer-shareholders across the North and South islands, sharing news and information about the co-operative and gaining valuable feedback and ideas.

Director Dawn Sangster says: "As always, I enjoyed presenting and receiving feedback about our co-operative from the attendees. I was blown away by the attendance of Dot Spencer of D G Spencer (Cheviot) at our Amberley meeting. Dot, at 92 years young, is surely an inspiration to us all."

Dot and her late husband Earl began their farming life in Christchurch before buying Brookdale Farm in Cheviot, now run by two of their sons, Greg and Mark. Greg, Mark and Dot's other son Danny, of D G Spencer (Cheviot) are all long-time Alliance shareholders.

Pictured above: Director Dawn Sangster (left) and Dot Spencer (right).

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## ***Market update***

### **Lamb**

The UK market remains firm for chilled and frozen, even with local production now coming on stream. The same goes for Europe with steady demand for all items. Lower availability out of New Zealand has assisted in some price improvements during the season. Demand is also continuing in North America. A lack of Australian supply has intensified requirements for New Zealand to support both retail and food service for all cuts with the market returns equal to better than alternate global options. Alliance will continue to support the winter chilled programmes in this region over the next few months, leading into next year. ABF supply will become critical.

The Chinese market is subdued with the seasonal consumption decline but limited availability of stock will ensure steady market fundamentals as we head into the key winter months. Consumption is currently low in the Middle East due to Ramadan and the summer months but demand and price looks to be holding up for post this period.

## **Mutton**

Limited production and stocks are ensuring firm demand from all markets. Malaysia and Mexico have shown strong interest later in the season that has supported in under-pinning and in some cases strengthening prices. This has been partly due to the tight supply of lamb for these markets.

## **Venison**

Frozen key account contracts are complete for Europe and the market remains strong – with shortages evident for frozen and chilled product as we move into the 2017 game season. The North American market continues to remain firm for high value and manufacturing type cuts. There is also increasing interest from food service and manufacturing sectors, which is assisting in expanding alternative market opportunities outside traditional markets.

## **Beef**

US market prices for domestic trim have peaked and there may be some correction – with high summer kills coming on stream. However, demand remains strong due to the lower availability of imported beef from New Zealand and Australia. The more condensed and reduced cull cow kill has kept prices more stable than previous years.

The Memorial Day holiday weekend is a pivotal period for early summer hamburger consumption so demand is expected to be steady. Chinese buyers are heading into summer and believe consumption could ease slightly in June but start to grow again from late July into August.

Chilled supplies have been limited due to high dairy cow kills. However, these are now starting to ease and prime numbers will increase for a few weeks, placing pressure on domestic chilled. Japanese and other Asian markets remain steady to slightly weaker.

Some positive diversified options of neck bones and a range of lower valued beef cuts has attracted stronger prices in Indonesia.

## **Co-products**

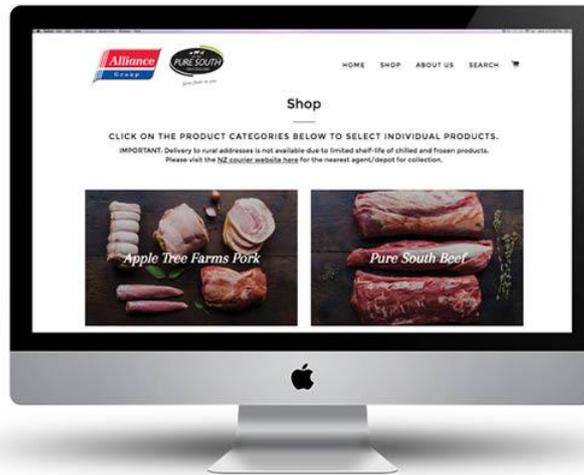
Markets for pelts remain steady. Most hide producers are sold forward and with limited kill coming forward, prices should remain steady. In rendering, maximum mixed meal production from beef has continued to trade at very firm levels. With kills winding down we are also now seeing increased requests for casings offers to Europe.

Warm regards



**David Surveyor**  
**CHIEF EXECUTIVE**

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